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SUBJECT: AZERBAIJAIN'S FOREIGN MINISTER DISCUSSES ECONOMIC PARTNERSHIP COMMISSION AND ENERGY ISSUES

REF: BAKU 1721

Classified By: Ambassador Anne E. Derse for reasons 1.4 (b, d)

¶1. (C) This contains an action request; see paras 17 and 18.

¶2. (C) Summary: Foreign Minister Mammadyarov underscored to the Ambassador on January 18 GOAJ interest in a formal memorandum launching the February 7 Economic Partnership Commission (EPC), echoing Finance Minister Sharifov's request to the Ambassador last week. The Ambassador and Mammadyarov discussed the results that can be advanced by the EPC, including possible follow-on working groups on Azerbaijan's long-term development strategy, managing Azerbaijan's energy revenues, telecommunications, and agriculture. Mammadyarov said Azerbaijan should pursue WTO accession, noting that, importantly, Economic Development Minister Heydar Babayev is fully supportive of WTO membership and will soon make a presentation to the President and Cabinet on this matter. Mammadyarov requested a new bilateral energy security dialogue, also formalized through an MOU at the EPC, and to be led by the Department and the MFA. (We strongly support this request, and believe an energy MOU signing during the EPC could advance our southern corridor goals.) Mammadyarov also urged the USG to approach Turkish Energy Minister Hilmi Guler and Turkish Prime Minister Tayyip Erdogan to encourage progress on a gas transit agreement, and asked the USG to support the GOAJ's efforts to launch trilateral political security consultations among Azerbaijan, Georgia, and Turkey. Recalling the USG's proposal to launch a discussion on the responsible use of energy wealth for economic and social development at the UNGA last fall and Azerbaijan's positive record under the Extractive Industries Transparency Initiative (EITI), Mammadyarov proposed a joint USG-Azerbaijan effort, through a UN resolution, to initiate an ongoing discussion on this matter under UN auspices with other energy-rich developing states. End Summary.

¶3. (C) The Ambassador met with Foreign Minister Eldar Mammadyarov January 18 to discuss several aspects of the bilateral relationship. This cable reports their conversation about the February 7 Economic Partnership Commission (EPC) and bilateral energy dialogue. Other topics covered including Iraq, Afghanistan/NATO, pol-mil consultations, human rights and the New Embassy Compound will be reported septels.

Legal Status of the EPC

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¶4. (C) Mammadyarov said the GOAJ seeks to have a formal

memorandum launching the EPC in the context of the broader strategic partnership between the USG and the GOAJ. Finance Minister Sharifov had made the same request of the Ambassador last week, pointing to the 2000 Memorandum concluded between the Department and the GOAJ to launch the Joint Economic Task Force (JETF). Sharifov said the GOAJ wants to update that agreement to reflect the elevation of the assistance-focused JETF to the EPC. Sharifov indicated the GOAJ would accept the text the USG proposes, which could be a simple addendum to the existing MOU, if that is easiest. Mammadyarov said he has tasked Deputy Foreign Minister Khalaf Khalafarov to investigate options. The Ambassador said the USG will further examine this issue, noting Sharifov's suggestion that that the original 2000 agreement creating the US-Azerbaijan Joint Economic Task Force (which covered assistance issues and reform) could be revised or an addendum made to elevate the body and broaden its focus to reflect the new economic dialogue.

#### EPC Deliverables

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¶ 15. (C) The Ambassador and Mammadyarov agreed that the EPC must have concrete deliverables. The Ambassador observed that the EPC should conclude with a joint statement to reflect the launch of the EPC, its goals and next steps, and concrete results of the first meeting. The statement would be accompanied by the signing of several memorandums of understanding, and be presented by the two co-chairs at a press conference. Mammadyarov agreed. Mammadyarov said that the GOAJ needs a list of USG participants so the GOAJ can decide who should represent the GOAJ on particular issues. (Note: Embassy has sent this list to the MFA.) The

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Ambassador stated the USG is still waiting to hear from Finance Minister Samir Sharifov regarding the key issues that the GOAJ would like to include in the EPC agenda. (Sharifov told the Ambassador on January 20 that he has asked his colleagues to provide their ideas and will share them with us this week.)

¶ 16. (C) The Ambassador remarked that President Ilham Aliyev has told us that he wants the EPC to have practical results and not be a mere talk shop. The Ambassador said the USG is working to follow up on Aliyev's request (ref) that the EPC should create "a permanent working group," focused on Azerbaijan's long-term development strategy and management of Azerbaijan's energy revenue. The Ambassador and Mammadyarov discussed the possibility for other EPC working groups focused on implementing our new agreement on cooperation on telecommunications, signed last fall, and exploring deeper cooperation on agriculture.

¶ 17. (C) Pointing to the recent visit of the Agriculture Counselor and her recent discussion with USDA in Washington, the Ambassador said agriculture is a sector that should be included within the EPC, given the importance of the sector to the development of Azerbaijan's non-energy economy, possibly through the launch of a working group to explore how we can intensify cooperation. The USG would like to work more closely with the GOAJ in the agricultural sector, although there will be declining USG assistance funding for this and other sectors. She noted that US assistance increasingly will move toward a co-financing model, particularly given Azerbaijan's large energy revenues. The Ambassador added that the USG has expertise to share and can develop concrete assistance projects if the GOAJ can help finance them. Mammadyarov said he understood the USG's move toward a cost-sharing assistance model.

¶ 18. (C) The Ambassador said that the USG wants to help the GOAJ on WTO accession, but noted that it appears the GOAJ remains internally divided about whether Azerbaijan should pursue WTO membership. Mammadyarov acknowledged that some within the GOAJ do not support WTO accession, but said

membership is "very important" and "we should join." Mammadyarov also stated that it is in Azerbaijan's interest to join the WTO before Russia and Ukraine.

¶9. (C) Mammadyarov said Economic Development Minister Heydar Babayev is the GOAJ "focal point" for WTO issues, and it is very important that Babayev is now fully "on board" in support of Azerbaijan's WTO accession. Babayev's predecessor, Farhad Aliyev, had been against WTO accession, but Babayev is "more advanced in his vision," according to Mammadyarov. (Head of the State Oil Fund Shamar Movsumov also told the Ambassador that Babayev had been convinced of the value of WTO accession after a presentation Movsumov made, with the help of the macro-economic modeling unit funded by BP, that showed that liberalization of the economy would help relieve inflation stemming from high levels of public investment needed to spur Azerbaijan's non-energy sector development.) The Foreign Minister stated that Babayev currently is working on a WTO presentation that will soon be delivered to President Aliyev and the Cabinet of Ministers. Mammadyarov said that Finance Minister Sharifov also should be a key USG interlocutor concerning WTO issues because Babayev and Sharifov are the major players on the Azerbaijani budget. The Ambassador said that an EPC final statement should contain language noting the GOAJ's commitment to complete its legislative action plan for moving forward with its WTO bid. The Ambassador said the USG potentially could provide technical assistance on a co-financing basis. Mammadyarov welcomed this assistance, noted the GOAJ's willingness to co-finance a well-targeted draft plan for aiding the GOAJ's WTO accession.

#### EITI Proposal

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¶10. (C) Mammadyarov broached the idea of the USG and GOAJ partnering to create discussion in the UN, through an UNGA resolution, of the responsible use of energy revenues for economic and social development through the Extractive Industries Transparency Initiative (EITI). Mammadyarov said such a resolution and effort could highlight Azerbaijan's positive experience and example in EITI and develop a forum to share it with other oil rich states. He recalled the

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GOAJ's support last fall for a USG effort to launch a dialogue on responsible use of oil wealth for economic and social development through a roundtable chaired by President Bush on the margins of UNGA, and remarked that the resolution's theme could be the "responsible management of energy revenues for long-term development." Mammadyarov added that the GOAJ is discussing this idea with other EITI board members, noting that such an effort in the UN would not be lost on Russia. The Ambassador agreed that Azerbaijan's positive performance on EITI provides an excellent example but also noted questions about how much money is flowing into the State Oil Company of Azerbaijan, as SOCAR's revenue is not part of Azerbaijan's EITI obligations.

#### Energy Dialogue

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¶11. (C) Mammadyarov suggested the USG and GOAJ broaden their energy dialogue and engage in joint efforts on the politics and diplomacy of "energy security," in addition to cooperation on technical issues and "energy supply" issues covered under our 1997 energy dialogue MOU between the Department of Energy and Ministry of Energy. With respect to the latter, Mammadyarov noted Azerbaijan's interest in intensified discussion of renewable energy. A new bilateral "energy security" dialogue should focus on the political dynamics of energy security, and be led by the MFA and Department of State, Mammadyarov said. The Ambassador said Assistant Secretary of State Dan Sullivan, working with State's PDAS for South and Central Asia Steven Mann and European Bureau DAS Matthew Bryza are key USG interlocutors

for "energy security" in the region.

¶12. (C) The Ambassador asked Mammadyarov about President Aliyev's decision to have Mammadyarov serve as the lead GOAJ interlocutor on energy issues. Mammadyarov explained that the MFA is taking the lead on "energy diplomacy" because President Aliyev and the GOAJ see energy security as a political and international issue, not solely an economic and technical matter. Mammadyarov noted that 2007-2008 could be a crucial period for energy security. Commenting on regional energy players, Mammadyarov said Kazakhstan "must be brought in" on a commercial basis, while Turkmenistan needs to take advantage of the opportunity. Mammadyarov noted that Iran "is always a factor," and Russia's strategy toward Europe underscores the political aspect of energy security issues. Intensified USG and GOAJ cooperation in addressing these issues will be key to achieving our shared goals in establishing the southern energy corridor, he underscored.

¶13. (C) Mammadyarov said the USG and GOAJ should work out an MOU to establish a new "energy security" dialogue, with the Department of State and MFA in the lead. Mammadyarov said the GOAJ considers it "very important" to establish this dialogue, if possible, at the February EPC. The Ambassador agreed and said she would raise this issue with Washington. (Comment: The day after this meeting, Mammadyarov's op-ed on energy security appeared in the European edition of the Wall Street Journal, underscoring Azerbaijan's willingness to publicly tackle sensitive energy security issues.)

#### Azerbaijan-Turkey Gas Transit Agreement

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¶14. (C) The Ambassador and Mammadyarov agreed on the need for Baku and Ankara to reach a gas transit agreement to send the right signal to European markets. The Ambassador asked Mammadyarov how the GOAJ seeks to move this process forward, especially as Turkey's electoral season will start in April. Mammadyarov said we "can build up a strategy to achieve" a transit agreement, and can send a "clear message" to the Ankara that "they must do it." Mammadyarov said a US-GOAJ Energy Dialogue MOU would send a very strong message to the Turks, whom he characterized as "very stubborn," encouraging them to be more receptive to a transit agreement. Mammadyarov suggested Russia's relations with Turkey are also slowing plans for an Azerbaijani-Turkey gas transit agreement. The Ambassador pressed Mammadyarov on whether an agreement was feasible before April. Mammadyarov said that he did not think a formal agreement was likely in this timeframe, but perhaps an "unofficial understanding" could be reached.

¶15. (C) In response to the Ambassador's question about how

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the USG can assist in bringing Azerbaijan and Turkey together toward a transit agreement, Mammadyarov said the USG must start with Turkish Energy Minister Hilmi Guler. Guler, however would be a "major obstacle" to a transit agreement because the Russians have convinced him that Turkey can be a mini-GAZPROM like energy hub. For this reason, it would be necessary to raise the matter directly with Turkish Prime Minister Tayyip Erdogan. Foreign Minister Gul, Mammadyarov said, would be on board with a transit agreement. (Comment: We defer to Embassy Ankara on the best means to bring the Turks on board, but note the need for the USG to reinforce the message on the importance of a transit agreement directly to PM Erdogan, over Guler's head, has been a consistent theme in recent months from our GOAJ interlocutors, including President Aliyev. End comment.)

¶16. (C) Mammadyarov also sought USG support for his effort to establish trilateral political-security consultations among Azerbaijan, Georgia, and Turkey. These three countries' strategic projects (BTC, BTE, and the Kars-Alkhalkhi-Baku railroad) form the natural foundation

for such consultations, said Mammadyarov. He explained that security consultations should not be military-to-military discussions, but be conducted at the broader, political level. Mammadyarov remarked that the Turks are skittish about his proposal, noting that Russia "hates Georgia" and will seek to sabotage the establishment of such a forum.

Comment and Action Request

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¶17. (C) We strongly support Mammadyarov's request to sign an MOU on cooperation on Energy Security during the EPC. Such a document would parallel Azerbaijan's agreement with the EU and would send a strong public signal of USG support for the development of the southern corridor. We urge that Washington prepare a draft we can share with the GOAJ as soon as possible.

¶18. (C) We also seek Washington's guidance on Mammadyarov's proposal that Azerbaijan and the US work together to initiate a discussion in the UN on the responsible use of energy wealth for economic and social development. Azerbaijan's positive experience with EITI is widely recognized as a model, and we recall that Azerbaijan was fully supportive of our proposal to hold a roundtable with President Bush on this issue last fall. We should capitalize on the GOAJ's interest in showcasing its experience to advance our global goals on this key issue.

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